

GLOBAL CREDIT PROGRAM TO MICROENTERPRISES II

(PE-0189)

EXECUTIVE SUMMARY

BORROWER AND GUARANTOR: The Republic of Peru

EXECUTING AGENCY: Corporación Financiera de Desarrollo S.A. (COFIDE)
[Development Finance Corporation]

AMOUNT AND SOURCE: IDB: US\$30,000,000 (OC)
Local counterpart funding: US\$12,860,000
Total: US\$42,860,000

FINANCIAL TERMS AND CONDITIONS: Amortization period: 25 years
Disbursement period: 3 years
Commitment period: 2.5 years
Interest rate: variable
Inspection and supervision: 1%
Credit fee: 0.75%
Currency: US\$ single currency facility

OBJECTIVES: The program's general objective is to support development of (urban and rural) microenterprises that are commercially viable and are their owners' main source of income. The specific objectives are to: (i) give microenterprises greater access to credit and other financial-sector services; and (ii) continue the process of forming an institutional base of financial intermediaries capable of providing the microenterprise sector with increasing and uninterrupted service.

DESCRIPTION: Financing from the program will be designed to increase the capacity of IFIs in the formal sector (banks, private development finance companies, CMACs, CRACs and small-business and microenterprise development institutions) to provide credit to microenterprises on a sustained basis and on terms comparable with those available on the market. The program is multisectoral in nature. Its resources will be used to finance short- and medium-term loans to eligible individuals or juridical persons in the microenterprise sector. Those loans are to go toward financing working capital or purchasing fixed assets to establish, consolidate, and improve the productivity of the recipients' businesses. The

present program builds upon the credit component introduced in the first global microenterprise credit program, launched in 1996.

**ENVIRONMENTAL AND
SOCIAL IMPACT
REVIEW:**

The importance of the measures conducted under the first global microenterprise credit program is emphasized. They will continue under this program and consist of the following: (i) help the IFIs classify the main types of microenterprises and their environmental impact and, especially, determine measures that will mitigate any adverse effects on the environment; (ii) assign the subloans an environmental classification; and (iii) contract a specialized firm to monitor and ensure that environment-related measures taken by the IFIs and the microenterprises are properly implemented.

BENEFITS:

The expanded financial services planned under the proposed program are expected to have a positive socioeconomic impact as they will open up more opportunities for employment and income for the neediest groups. The program's resources will ultimately go to microentrepreneurs with viable businesses. Beneficiaries will be offered a quick and timely financial product that will enable them to take advantage of the opportunities afforded by the growth either already posted or projected in Peru's economy. Where the financial system is concerned, the program will help expand and diversify the range of financial services available for microenterprise. This, in turn, will increase the competition to serve this market segment and thus help lower interest rates and transaction fees.

POVERTY TARGETING:

The nature of the program is such that it automatically qualifies as "targeting low-income groups" (poverty-targeted investment).

RISKS:

One of the program's main risks is that the anticipated impact may not be obtained if the macroeconomic and financial climate makes it difficult to sustain a steady and efficient flow of credit resources to the microenterprise sector. However, that risk is minimized by the favorable medium-term prospects for Peru's economy due to the authorities' adherence to the economic program; consolidation of the reforms introduced at the start of the decade, and the measures taken to cope with a possible deepening of the Asian crisis. The second risk is that for reasons beyond its control, COFIDE might not be in a position to avoid selecting IFIs that are not financially sound. To minimize this risk, however, the program design has built the

necessary safeguards into the Credit Regulations. Also, COFIDE has recently established a special unit for risk analysis. A third risk, which is that demand falls short of expectations, is highly unlikely since the operation was scaled on the basis of a conservative demand forecast. Furthermore, the technical assistance to transfer the credit technology from the Microglobal I program, which is getting underway, will provide ample support for creating increased institutional capacity to lend resources to a sector that still receives few services from the financial system.

**THE PROJECT'S
ROLE IN THE
BANK'S COUNTRY
AND SECTOR
STRATEGY:**

The proposed operation fits into the Banks' strategic areas in the country and in the sector, especially given its support to microenterprise and job creation. The Bank's strategic areas of operation in Peru for the 1998-2000 period, as enumerated in the country paper, are: (i) support for modernization of the economy, which includes the second stage of the structural reform process and support to small businesses and microenterprise to improve their productivity; (ii) support for job creation, poverty reduction and the delivery of social services; and (iii) modernization of the State. The operation is also an integral part of the measures planned for the "Micro 2001 Program," in which support to microenterprise in the region is expected to top US\$500 million.

**SPECIAL
CONTRACTUAL
CONDITIONS:**

- (a) Prior to the first disbursement from the program, COFIDE must submit the following to the Bank's satisfaction: (i) the contract signed with the borrower for the transfer and execution of the program; (ii) evidence that the Credit Regulations are in effect; and (iii) at least eight (8) subsidiary participation agreements signed with eligible IFIs. COFIDE will also be required to submit its financial statements and those of the program, audited annually for the duration of the program's disbursement period and for up to another three (3) years from the date of the last disbursement.
- (b) (i) the commitment to put recoveries to the specified use for the indicated time period (see paragraph 3.3); (ii) presentation of the environmental evaluation within the first six months of every calendar year, starting the year after the first disbursement from the loan (see paragraph 3.7); (iii) inclusion of the information indicated in paragraph 3.8 as part of the semiannual progress reports;

(iv) presentation of the financial statements of COFIDE and of the program, every year for the duration of the disbursement period and for up to three more years after the date of the last disbursement (see paragraph 3.9); (v) presentation of the results of the ex post evaluation of the program (see paragraph 3.10); and (vi) recognition of expenditures that can be charged against the local counterpart funding and the Bank financing, effective June 30, 1998 (see paragraph 3.12).